

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 PA-01 PRS-01 L-03 ABF-01 FS-01 PER-01 /086 W
----- 043963

R 081350Z DEC 76

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 2514

INFO AMEMBASSY BUENOS AIRES

AMEMBASSY BRASILIA

AMEMBASSY MONTEVIDEO

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EO 11652: NA

TAGS: EAGR, EFW, AFIN, CI, ALOW, AFSP

SUBJ: PESO TO BE DEVALUED BY 4.7 PERCENT FOR PERIOD DEC 5 -
JANURARY 4

REF: A) SANTIAGO 10718, B) SANTIAGO 11535, C) SANTIAGO 11534

1. GOC HAS ANNOUNCED THAT PESO WOULD BE DEVALUED BY 4.7 PERCENT
AGAINST THE DOLLAR DURING THE PERIOD DECEMBER 5 - JANUARY 4.

2. REF A DESCRIBES HOW THE CONSUMER PRICE INDEX (CPI) IS ADJUSTED
FOR SEASONAL FACTORS IN ORDER TO ARRIVE AT THE PERCENTAGE FIGURE
WHICH IS THE BASIS FOR THE RATE OF DEVALUATION. FOR OCTOBER,
THE CPI OF 6.7 PERCENT WAS ADJUSTED DOWNWARDS TO 5.74 PERCENT,
IN ORDER TO MAKE ALLOWANCE FOR SEASONALLY HIGH PRICES OF POTATOES,
MEAT AND ONIONS. IN NOVEMBER, THE CPI DROPE BACK TO 3.8 PERCENT.
IN PART, IT HAD BEEN DEPRESSED BY SEASONAL LOWS IN THE PRICES OF
THESE THREE KEY ITEMS. THE GOC HAD THEREFORE TO ADJUST THE
NOVEMBER CPI FOR EXCHANGE RATE PURPOSES UPWARDS, TO 4.7 PERCENT.
TAKING OUT THESE SEASONAL FACTORS IN BOTH MONTHS LEAVES A REDUC-
TION IN THE ADJUSTED INFLATION RATE NOT OF MEARLY 3 PERCENT
(6.7 - 3.8) BUT RATHER OF ONE PERCENT (5.74-4.1?).

3. FOR THE FIRST TIME, HOWEVER, SINCE JANUARY 1976, THE PESO

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DURING NOVEMBER WAS DEVALUED MORE THAN THE RISE IN THE CPI.

THIS HAS IMPLICATIONS FOR CHILEAN EXPORTERS AND BUSINESSMEN
GENERALLY. IT ALSO HAS IMPLICATIONS FOR DOLLAR INCOME
PERSONNEL IN SANTIAGO.

4. WITH REGARD TO THE BUSINESS SECTOR, COMPLAINTS ARE RECEIVED
THAT THE PESO HAS BECOME SERIOUSLY OVERVALUED AS THE RESULT OF
EARLIER REAL REVALUATIONS AGAINST THE DOLLAR (DEVALUING BY LESS
THAN DOMESTIC INFLATION). WITH THE SHARP CUTS IN CHILE'S
TARIFF BARRIERS, A NUMBER OF CHILEAN FIRMS ARE APPARENTLY HAVING
A VERY HARD TIME MEETING FOREIGN COMPETITION. SUCH FIRMS CLAIM
THAT OVERVALUATION OF THE PESO HAS REDUCED THEIR EFFECTIVE
PROTECTION TO ZERO.

5. ADDITIONALLY, THE UNCERTAINTY OF CHILEAN EXCHANGE RATE
POLICY (NOT MADE ANY MORE PREDICTABLE BY ITS LINK TO PRICE
FLUCTUATIONS IN POTATOES, ONIONS AND MEAT) IS COSTLY. EXPECTA-
TIONS OF A RELATIVE DEVALUATION IN ORDER TO MAKE CHILEAN GOODS
MORE COMPETITIVE REPORTEDLY INDUCED SOME HEDGING IN DOLLARS IN
NOVEMBER, THEREBY BRINGING FURTHER UPWARD PRESSURE ON ALREADY
EXTREMELY HIGH DOMESTIC INTEREST RATES. COMBINATION OF TIGHT
MONETARY POLICY AND EXCHANGE RATE UNCERTAINTIES HAS PUSHED INTEREST
RATES TO LEVELS (10 TO 16 PERCENT A MONTH DEPENDING ON BORROWER)
WHICH THREATEN THE COLLAPSE OF SOME FINANCIALLY HARD-PRESSED
LOCAL FIRMS.

6. LOW COPPER PRICES PLUS THREATENED HIGHER PETROLEUM PRICES,
SUGGESTING A NEW IMPORTANCE FOR NON-TRADITIONAL EXPORTS, WOULD
ADD WEIGHT TO THE ARGUMENT FOR A RELATIVELY CHEAPER PESO.
APART, HOWEVER, FROM THE SMALL UPWARD ADJUSTMENT OF THE DOLLAR
DISCUSSED ABOVE, THE GOC'S POLICY THUS FAR INDICATES THAT A
HIGHER PRIORITY IS STILL BEING GIVEN TO THE CONTROL OF INFLATION,
IN PART THROUGH THE ENCOURAGEMENT OF IMPORTS THROUGH A RELATIVE
MORE EXPENSIVE PESO.

7. MEANWHILE, THE COST OF LIVING FOR THE DOLLAR INCOME EMPLOYEE
IN SANTIAGO AS REPORTED IN PARA 7, REF A, HAS IMPROVED, BUT
ONLY MARGINALLY. DOLLAR PURCHASING POWER IN SANTIAGO, WHICH
BY SEPTEMBER 30 WAS CALCULATED TO HAVE DECREASED SINCE APRIL
MORE THAN IT HAD IN THE US BY 19 PERCENT, IS NOW ESTIMATED AS OF
NOVEMBER 30 TO HAVE DECREASED BY ABOUT 16 PERCENT.
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POPPER

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